HSC Topic One – The Global Economy

**Features of the Global Economy**

**Nature of the Global Economy and Globalisation**

* **The Global Economy**

The global economy refers to the links between national economies developed through increasing trade flows, flows of funds and the flow of other resources and ideas.  
Tim Riley’s Economic Textbook defines the global economy as the sum of all countries in the world engaging in economic activity.

* **Gross World Product**

Gross World Product (GWP) is a measurement by the IMF (International Monetary Fund) which values each country’s GDP at purchasing power parities and totals them. In simpler terms, GWP is the total value of goods and services produced by the world over a period of time (usually a year).

* **Globalisation**

Globalisation refers to the development and deepening of world markets in capital, goods and services by the increasing occurrence of commercial exchanges across national boundaries. Globalisation is characterized by a shift from a world of distinct national economies to a world economy in which there is relatively free movement of goods, capital, services, skills, ideas and people across national borders.

* **Trade:** has been important in the process of globalization, trade refers to the movement of exchanging goods and services between nations which generally leads to a higher GWP.
* **Investment and Technology:** Globalisation has increased the opportunity for nations to invest in others due to the breaking down of national barriers and the deregulation of financial markets. Foreign Direct Investment (FDI) which refers to a situation in which a company purchases or establishes a controlling interest in a foreign subsidiary, in 2007 Australia’s level of FDI was valued at US$2,140,000m. The expansion of investment has increased the level of capital and has also stimulated and facilitated the world wide introduction of new technology. Although this new technology has spread to numerous economies at differing rates.
* **Finance:** Globalisation has led to rapid growths in financial markets, both international and national. This flow of finance has been stimulated through the accelerating progress in the information technology and communication area allowing ease to transfer capital across national borders.
* **Labour:** Globalisation has led to increasing flow of labour across national borders as there are greater employment opportunities although this movement of labour is somewhat hindered through the tightening of restrictions, migration of labour still occurs.
* **The International Business Cycle**

The international business cycle refers to the fluctuations in production measured by changes in real GDP. The international business cycle experiences expansion, contraction, peaks and troughs. An expansion occurs when there is an increase in the level of production, a contraction occurs when there is a slowdown in the level of production. A peak is the highest turning point of a business cycle and the trough is the lowest turning point. In the years 04- 07 within the Global Resource boom there was a contraction however from 08 – 10 the Global Financial Crisis caused a fall in the level of output and production (contraction).